

Financial Results for the Nine Months Ended December 31, 2018

Fukoku Mutual Life Insurance Company (President: Yoshiteru Yoneyama) announces financial results for the nine months ended December 31, 2018.

[Contents]

1. Business Highlights	P. 1
2. Investment Results of General Account Assets	P. 3
3. Non-consolidated Balance Sheets	P. 6
4. Non-consolidated Statements of Operations	P. 7
5. Breakdown of Ordinary Profits (Fundamental Profit)	P. 9
6. Solvency Margin Ratio	P.10
7. Status of Separate Account	P.11
8. Status of the Company, Subsidiaries and Affiliates	P.12

1. Business Highlights

(1) Policies in Force, New Policies and Surrendered and Lapsed Policies

(i) Policies in Force

		As of March 31, 2018		As of December 31, 2018			
		Number of policies (Thousands)	Amount (100 millions of yen)	Number of policies		Amount	
				(Thousands)	Changes (%, Pre-FYE)	(100 millions of yen)	Changes (%, Pre-FYE)
	Individual insurance	3,180	227,653	3,183	100.1	226,730	99.6
	Individual annuities	687	26,684	664	96.7	25,805	96.7
	Subtotal	3,868	254,338	3,847	99.5	252,535	99.3
	Group insurance	—	170,732	—	—	173,661	101.7
	Group annuities	—	21,803	—	—	21,848	100.2

Notes: 1. Policy amounts for individual annuities are equal to (a) the funds to be held at the time annuity payments are to commence for an annuity for which annuity payments have not yet commenced and (b) the amount of policy reserve for an annuity for which payments have commenced and (c) special riders for term insurance attached to individual annuities.

2. Policy amount in force for group annuities is equal to the amount of outstanding policy reserve.

(ii) New Policies

Nine months ended December 31, 2017		Total		New business	Net increase by conversion
		Number of policies (Thousands)	Amount (100 millions of yen)	Amount (100 millions of yen)	Amount (100 millions of yen)
	Individual insurance	280	10,861	10,338	522
	Individual annuities	5	148	159	(10)
	Subtotal	285	11,010	10,497	512
	Group insurance	—	338	338	—
	Group annuities	—	158	158	—

Nine months ended December 31, 2018		Total				New business		Net increase by conversion	
		Number of policies		Amount		Amount		Amount	
		(Thousands)	Changes (%, YoY)	(100 millions of yen)	Changes (%, YoY)	(100 millions of yen)	Changes (%, YoY)	(100 millions of yen)	Changes (%, YoY)
	Individual insurance	269	96.3	12,000	110.5	10,298	99.6	1,702	325.6
	Individual annuities	5	107.3	158	106.3	168	106.1	(10)	—
	Subtotal	275	96.5	12,158	110.4	10,467	99.7	1,691	330.1
	Group insurance	—	—	506	149.7	506	149.7	—	—
	Group annuities	—	—	0	0.4	0	0.4	—	—

Notes: 1. Number of new policies is the sum of new business and policies after conversion.

2. Amount of new policies for individual annuities, both new business and net increase by conversion, is equal to the funds to be held at the time annuity payments are to commence and special riders for term insurance attached to individual annuities.

3. Amount for group annuities is equal to the initial premium payment.

(iii) Surrendered and Lapsed Policies (Individual Insurance and Individual Annuities)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	
			Changes (%, YoY)
Amount of surrender and lapse (100 millions of yen)	9,486	9,355	98.6
Surrender and lapse ratio (%)	3.66	3.68	0.02

Notes: 1. The amount of lapse is not offset by the amount of reinstatement which was once lapsed.

2. The column of "Changes" of surrender and lapse ratio is increase-decrease points over year.

(2) Annualized Premiums

(i) Policies in Force

(100 millions of yen, %)

	As of March 31, 2018	As of December 31, 2018	
			Changes (% , Pre-FYE)
Individual insurance	2,747	2,732	99.5
Individual annuities	1,296	1,254	96.8
Total	4,043	3,986	98.6
Medical coverage and living benefits	1,107	1,118	101.1

(ii) New Policies

(100 millions of yen, %)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	
			Changes (% , YoY)
Individual insurance	113	113	100.1
Individual annuities	4	4	104.4
Total	118	118	100.2
Medical coverage and living benefits	60	57	95.1

- Notes: 1. Annualized premiums are calculated by using coefficients based on the premium payment method. (For single premium contracts, the amount is calculated by dividing the premium by the coverage period.)
2. Figures for medical coverage and living benefits represent portion of annualized premium corresponding to the medical benefits (hospitalization benefits and surgery benefits, etc.), living benefits (nursing care benefits, etc.) and premium waiver benefits, in which disability cause is excluded but causes such as specific illness are included.
3. New policies include net increase by conversion.

2. Investment Results of General Account Assets

(1) Asset Composition

(Millions of yen, %)

	As of March 31, 2018		As of December 31, 2018	
	Amount	% of total	Amount	% of total
Cash, deposits, and call loans	240,462	3.7 %	225,019	3.5 %
Monetary claims bought	443	0.0	312	0.0
Money held in trust	31,502	0.5	23,412	0.4
Securities	5,380,830	82.2	5,362,317	82.5
Domestic bonds	2,818,618	43.1	2,786,786	42.9
Domestic stocks	740,828	11.3	640,665	9.9
Foreign securities	1,713,869	26.2	1,829,347	28.2
Foreign bonds	1,434,457	21.9	1,550,323	23.9
Foreign stocks and other securities	279,412	4.3	279,023	4.3
Other securities	107,514	1.6	105,517	1.6
Loans	593,734	9.1	568,999	8.8
Policy loans	57,181	0.9	56,397	0.9
Ordinary loans	536,553	8.2	512,602	7.9
Real estate	213,674	3.3	212,532	3.3
Deferred tax assets	—	—	19,663	0.3
Others	85,664	1.3	88,015	1.4
Allowance for possible loan losses	(2,049)	(0.0)	(1,891)	(0.0)
Total	6,544,262	100.0	6,498,380	100.0
Foreign currency denominated assets	1,998,720	30.5	2,136,132	32.9

Note: The amount of real estate is equal to the amounts of land, buildings, and construction in progress.

(2) Fair Value Information on Securities (with fair value, other than trading securities)

(Millions of yen)

	As of March 31, 2018					As of December 31, 2018				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
				Gains	Losses				Gains	Losses
Held-to-maturity debt securities	758,872	897,574	138,702	138,702	—	759,691	893,968	134,276	134,276	—
Domestic bonds	738,632	876,835	138,203	138,203	—	738,642	872,483	133,840	133,840	—
Foreign bonds	20,239	20,738	498	498	—	21,048	21,484	436	436	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Policy-reserve-matching bonds	973,736	1,134,148	160,412	162,375	1,962	947,862	1,103,857	155,995	157,557	1,562
Domestic bonds	971,937	1,132,289	160,352	162,315	1,962	946,062	1,102,004	155,942	157,504	1,562
Foreign bonds	1,799	1,859	59	59	—	1,799	1,852	53	53	—
Investments in subsidiaries and affiliates	—	—	—	—	—	—	—	—	—	—
Available-for-sale securities	2,941,466	3,404,811	463,345	531,772	68,427	3,092,149	3,451,858	359,708	426,866	67,158
Domestic bonds	1,023,447	1,080,932	57,484	67,947	10,462	1,023,410	1,085,121	61,710	67,615	5,905
Domestic stocks	305,353	671,850	366,497	370,278	3,780	305,972	571,689	265,717	277,509	11,792
Foreign securities	1,538,185	1,558,823	20,637	73,359	52,721	1,684,173	1,703,941	19,768	65,960	46,192
Foreign bonds	1,290,483	1,290,268	(214)	46,425	46,640	1,421,781	1,436,259	14,478	48,895	34,417
Foreign stocks and other securities	247,701	268,554	20,852	26,933	6,081	262,391	267,681	5,290	17,064	11,774
Other securities	74,480	93,205	18,725	20,187	1,462	78,593	91,106	12,512	15,780	3,267
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	4,674,074	5,436,534	762,459	832,849	70,390	4,799,702	5,449,683	649,980	718,701	68,720
Domestic bonds	2,734,016	3,090,057	356,040	368,465	12,425	2,708,115	3,059,609	351,493	358,961	7,467
Domestic stocks	305,353	671,850	366,497	370,278	3,780	305,972	571,689	265,717	277,509	11,792
Foreign securities	1,560,224	1,581,421	21,196	73,918	52,721	1,707,021	1,727,278	20,257	66,449	46,192
Foreign bonds	1,312,522	1,312,866	343	46,984	46,640	1,444,629	1,459,597	14,967	49,384	34,417
Foreign stocks and other securities	247,701	268,554	20,852	26,933	6,081	262,391	267,681	5,290	17,064	11,774
Other securities	74,480	93,205	18,725	20,187	1,462	78,593	91,106	12,512	15,780	3,267
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—

Note: The table above includes assets which are considered appropriate to deem as securities under the Financial Instruments and Exchange Law.

• Book value of securities without fair value are as follows:

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Held-to-maturity debt securities	—	—
Unlisted foreign bonds	—	—
Others	—	—
Policy-reserve-matching bonds	—	—
Investments in subsidiaries and affiliates	64,837	64,837
Available-for-sale securities	28,021	27,313
Unlisted domestic stocks (except over-the-counter stocks)	5,697	5,696
Unlisted foreign stocks (except over-the-counter stocks)	—	—
Unlisted foreign bonds	—	—
Others	22,323	21,616
Total	92,858	92,150

Note: In this table, domestic and overseas investment partnerships are included in “Others” within “Available-for-sale securities.” However, unrealized gains on available-for-sale securities corresponding to these holdings by domestic and overseas investment partnerships (¥1,285 million as of March 31, 2018 and ¥2,579 million as of December 31, 2018) are included in their balance sheet carrying amounts.

(3) Fair Value Information on Money Held in Trust

(Millions of yen)

	As of March 31, 2018					As of December 31, 2018				
	Carrying value on the balance sheet	Fair value	Gains/losses			Carrying value on the balance sheet	Fair value	Gains/losses		
				Gains	Losses				Gains	Losses
Money held in trust	31,502	31,502	—	—	—	23,412	23,412	—	—	—

• Money held in trust for trading purpose

(Millions of yen)

	As of March 31, 2018		As of December 31, 2018	
	Carrying value on the balance sheet	Net valuation gains/losses included in the statements of operations	Carrying value on the balance sheet	Net valuation gains/losses included in the statements of operations
Money held in trust for trading purpose	30,502	0	22,412	(254)

• Money held in trust classified as held-to-maturity, policy-reserve-matching and available-for-sale

(Millions of yen)

	As of March 31, 2018					As of December 31, 2018				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
				Gains	Losses				Gains	Losses
Money held in trust for held-to-maturity	—	—	—	—	—	—	—	—	—	—
Money held in trust for policy-reserve-matching	—	—	—	—	—	—	—	—	—	—
Money held in trust for available-for-sale	—	—	—	—	—	—	—	—	—	—

Reference: Fair Value of Real Estate (Land and Leaseholds)

(Millions of yen)

As of March 31, 2018			As of December 31, 2018		
Carrying value on the balance sheet	Fair value	Gains (losses)	Carrying value on the balance sheet	Fair value	Gains (losses)
125,280	253,938	128,658	125,185	254,478	129,292

Notes: 1. As of December 31, 2018, fair value is based on the appraisal value by the real-estate appraiser, the appraisal value for property tax as of January 1, 2018 and the road rate as of January 1, 2018.

2. As of March 31, 2018, fair value is based on the appraisal value by the real-estate appraiser, the appraisal value for property tax as of January 1, 2018 and the road rate as of January 1, 2017.

3. Non-consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets:		
Cash and deposits	66,260	43,831
Call loans	176,000	183,000
Monetary claims bought	443	312
Money held in trust	31,502	23,412
Securities:	5,458,790	5,427,375
[Government bonds]	[2,030,971]	[2,020,948]
[Local government bonds]	[114,036]	[102,072]
[Corporate bonds]	[702,661]	[685,070]
[Stocks]	[768,000]	[663,044]
[Foreign securities]	[1,735,580]	[1,850,699]
Loans:	593,734	568,999
Policy loans	57,181	56,397
Ordinary loans	536,553	512,602
Tangible fixed assets	218,549	216,969
Intangible fixed assets	23,701	22,232
Reinsurance receivables	167	15
Other assets	59,508	62,834
Deferred tax assets	—	19,663
Allowance for possible loan losses	(2,049)	(1,891)
Total assets	6,626,609	6,566,756

	As of March 31, 2018	As of December 31, 2018
Liabilities:		
Policy reserves:	5,650,879	5,670,166
Reserve for outstanding claims	19,295	17,396
Policy reserve	5,578,187	5,582,447
Reserve for dividends to policyholders	53,395	70,321
Reinsurance payables	56	70
Subordinated bonds	191,935	191,935
Other liabilities:	46,066	43,490
Corporate income tax payable	2,445	1,455
Asset retirement obligations	3,088	3,131
Rest of the other liabilities	40,532	38,903
Reserve for employees' retirement benefits	25,417	24,935
Reserve for price fluctuation	95,798	98,389
Deferred tax liabilities	10,733	—
Deferred tax liabilities for land revaluation	14,241	14,226
Total liabilities	6,035,126	6,043,212
Net assets:		
Foundation funds	10,000	10,000
Accumulated foundation funds redeemed	106,000	106,000
Reserve for revaluation	112	112
Surplus:	135,538	141,345
Legal reserve for future losses	2,954	3,071
Other surplus	132,584	138,274
Reserve for redemption of foundation funds	6,000	8,000
Reserve for dividend allowances	20,000	20,000
Accumulated fund for price fluctuation	41,000	41,000
Reserve for advanced depreciation of real estate for tax purpose	255	210
Other reserves	767	767
Unappropriated surplus	64,561	68,297
Total foundation funds, surplus and others	251,650	257,458
Net unrealized gains (losses) on available-for-sale securities, net of tax	335,658	261,951
Revaluation reserve for land, net of tax	4,173	4,134
Total valuation and translation adjustments	339,831	266,086
Total net assets	591,482	523,544
Total liabilities and net assets	6,626,609	6,566,756

4. Non-consolidated Statements of Operations

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Ordinary revenues:		
Premium and other income	439,712	395,107
[Premium income]	[439,593]	[395,019]
Investment income	138,510	129,546
[Interest, dividends and other income]	[104,159]	[108,521]
[Gains on money held in trust, net]	[1,895]	[—]
[Gains on trading securities, net]	[8,506]	[1,303]
[Gains on sales of securities]	[14,307]	[19,278]
[Gains on separate accounts, net]	[8,856]	[—]
Other ordinary revenues	6,801	8,543
[Reversal of reserve for outstanding claims]	[727]	[1,899]
Total ordinary revenues	585,025	533,198
Ordinary expenses:		
Claims and other payments	388,047	354,921
[Claims]	[105,376]	[85,263]
[Annuities]	[125,439]	[121,312]
[Benefits]	[77,093]	[80,737]
[Surrenders]	[59,161]	[48,356]
[Other payments]	[20,768]	[19,063]
Provision of policy reserve and others:	17,731	4,269
Provision of policy reserve	17,722	4,259
Provision of interest portion of reserve for dividends to policyholders	8	9
Investment expenses	35,414	37,382
[Interest expenses]	[3,251]	[2,899]
[Losses on money held in trust, net]	[—]	[802]
[Losses on sales of securities]	[2,059]	[7,014]
[Losses on valuation of securities]	[44]	[1,386]
[Losses on derivative instruments, net]	[10,918]	[3,581]
[Foreign exchange losses, net]	[10,321]	[9,106]
[Losses on separate accounts, net]	[—]	[3,420]
Operating expenses	66,158	66,974
Other ordinary expenses	14,048	16,009
Total ordinary expenses	521,400	479,557
Ordinary profits	63,625	53,640
Extraordinary gains:		
Gains on disposal of fixed assets	244	3
Total extraordinary gains	244	3
Extraordinary losses:		
Losses on disposal of fixed assets	162	36
Impairment losses	140	69
Provision of reserve for price fluctuation	2,448	2,591
Losses on advanced depreciation of real estate for tax purpose	3	—
Total extraordinary losses	2,754	2,697
Surplus before income taxes	61,114	50,946
Income taxes:		
Current	10,511	8,222
Deferred	(104)	(1,775)
Total income taxes	10,407	6,447
Net surplus for the period	50,707	44,499

Notes to the Non-consolidated Financial Statements

I. Presentation of the Non-consolidated Financial Statements

1. Basis of presentation

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Fukoku Mutual Life Insurance Company (the “Company”) in accordance with the provisions set forth in the Insurance Business Act of Japan and its related rules and regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Amounts of less than one million yen have been rounded down. As a result, the totals do not add up.

II. Notes to the Non-consolidated Balance Sheets

1. The amount of securities lent under lending agreements was ¥211,669 million as of December 31, 2018.

2. Changes in reserve for dividends to policyholders for the nine months ended December 31, 2018 were as follows:

	(Millions of yen)
Balance at the beginning of the current period.....	¥ 53,395
Transfer from surplus in the previous fiscal year.....	38,630
Dividend payments to policyholders during the current period.....	(21,714)
Increase in interest.....	9
Balance at the end of the current period.....	<u>¥ 70,321</u>

5. Breakdown of Ordinary Profits (Fundamental Profit)

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Fundamental profit A	66,884	65,019
Capital gains	20,187	19,278
Gains on money held in trust, net	1,769	—
Gains on trading securities, net	4,110	—
Gains on sales of securities	14,307	19,278
Gains on derivative instruments, net	—	—
Foreign exchange gains, net	—	—
Other capital gains	—	—
Capital losses	23,345	23,999
Losses on money held in trust, net	—	915
Losses on trading securities, net	—	1,994
Losses on sales of securities	2,059	7,014
Losses on valuation of securities	44	1,386
Losses on derivative instruments, net	10,918	3,581
Foreign exchange losses, net	10,321	9,106
Other capital losses	—	—
Net capital gains (losses) B	(3,157)	(4,720)
Fundamental profit plus net capital gains (losses) A+B	63,726	60,298
Non-recurring gains	17	10
Reinsurance income	—	—
Reversal of contingency reserve	—	—
Reversal of specific allowance for possible loan losses	17	10
Others	—	—
Non-recurring losses	118	6,668
Reinsurance premiums	—	—
Provision for contingency reserve	118	549
Provision of specific allowance for possible loan losses	—	—
Provision of allowance for specified overseas loans	—	—
Write-off of loans	—	—
Others	—	6,119
Non-recurring gains (losses) C	(101)	(6,658)
Ordinary profits A+B+C	63,625	53,640

- Notes: 1. The following amounts in respect of gains / losses on money held in trust have been excluded from capital gains / losses and included in fundamental profit due to their income nature (being interest and dividend income): ¥126 million in respect of the nine months ended December 31, 2017 and ¥113 million in respect of the nine months ended December 31, 2018.
2. The following amounts in respect of gains / losses on trading securities have been excluded from capital gains / losses and included in fundamental profit due to their income nature (being interest and dividend income): ¥4,395 million in respect of the nine months ended December 31, 2017 and ¥3,298 million in respect of the nine months ended December 31, 2018.
3. Other non-recurring losses represent the losses relating to provision of the additional policy reserves in accordance with Article 69, Paragraph 5 of the Enforcement Regulations of the Insurance Business Act.

6. Solvency Margin Ratio

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Total solvency margin (A)	1,475,658	1,419,581
Foundation funds and surplus	210,194	225,894
Reserve for price fluctuation	95,798	98,389
Contingency reserve	187,050	187,599
General allowance for possible loan losses	1,501	1,368
(Net unrealized gains (losses) on securities (before tax) and deferred hedge gains (losses) (before tax)) × 90%	418,167	326,059
Net unrealized gains on real estate × 85%	122,692	126,969
Excess amount of policy reserve based on full-time Zillmer method	252,776	259,519
Qualifying subordinated debt	191,935	191,935
The amount of "excess amount of policy reserve based on full-time Zillmer method" and "qualifying subordinated debt" excluded from the calculation of solvency margin	—	—
Deductible items	(46,783)	(46,783)
Others	42,325	48,630
Total amount of risk $\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$ (B)	272,942	260,657
Insurance risk R_1	23,252	23,083
3rd sector insurance risk R_8	9,687	9,769
Assumed investment yield risk R_2	32,156	31,587
Minimum guarantee risk R_7	—	—
Investment risk R_3	232,788	221,231
Business risk R_4	5,957	5,713
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,081.2%	1,089.2%

Notes: 1. Above figures are calculated based on the provisions of Articles 86 and 87 of the Enforcement Regulation of the Insurance Business Act and Ministry of Finance Notification No. 50, 1996.

2. "Deductible items" represent the capital increase to the subsidiary, Fukokushinrai Life Insurance Co., Ltd.

3. "Minimum guarantee risk" is calculated by standard method.

7. Status of Separate Account

(1) Separate Account Assets by Products

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
	Amount	Amount
Individual variable insurance	—	—
Individual variable annuities	33	28
Group annuities	82,313	68,346
Total	82,347	68,375

(2) Policies in Force

(i) Individual Variable Insurance

The Company has not sold the individual variable insurance.

(ii) Individual Variable Annuities

(Millions of yen except number of policies)

	As of March 31, 2018		As of December 31, 2018	
	Number of policies	Amount	Number of policies	Amount
Individual variable annuities	10	27	9	25
Total	10	27	9	25

8. Status of the Company, Subsidiaries and Affiliates

(1) Selected Financial Data

(100 Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Ordinary revenues	6,273	6,018
Ordinary profits	647	552
Net surplus attributable to the parent company	508	443
Comprehensive income	1,623	(286)

	As of March 31, 2018	As of December 31, 2018
Total assets	84,888	84,092
Solvency margin ratio	1,127.4%	1,137.4%

(2) Scope of Consolidation and Application of Equity Method

Number of consolidated subsidiaries: 6

Number of unconsolidated subsidiaries accounted for under the equity method: 0

Number of affiliates accounted for under the equity method: 0

(3) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets:		
Cash and deposits	157,703	139,463
Call loans	176,000	183,000
Monetary claims bought	443	312
Money held in trust	31,502	23,412
Securities	7,203,196	7,147,995
Loans	597,285	572,652
Tangible fixed assets	218,895	217,308
Intangible fixed assets	38,056	34,897
Agency receivables	0	0
Reinsurance receivables	221	31
Other assets	67,341	70,755
Net defined benefit asset	107	161
Deferred tax assets	166	21,124
Allowance for possible loan losses	(2,049)	(1,891)
Total assets	8,488,872	8,409,225

	As of March 31, 2018	As of December 31, 2018
Liabilities:		
Policy reserves:	7,467,875	7,466,474
Reserve for outstanding claims	22,166	20,362
Policy reserve	7,391,773	7,375,354
Reserve for dividends to policyholders	53,395	70,321
Reserve for dividends to policyholders (subsidiary)	539	435
Agency payables	70	122
Reinsurance payables	75	88
Subordinated bonds	191,935	191,935
Other liabilities	59,509	55,901
Net defined benefit liabilities	34,019	32,369
Reserve for price fluctuation	105,521	108,377
Deferred tax liabilities	8,875	410
Deferred tax liabilities for land revaluation	14,241	14,226
Total liabilities	7,882,122	7,869,906
Net assets:		
Foundation funds	10,000	10,000
Accumulated foundation funds redeemed	106,000	106,000
Reserve for revaluation	112	112
Consolidated surplus	139,621	145,298
Total foundation funds, surplus and others	255,733	261,410
Net unrealized gains (losses) on available-for-sale securities, net of tax	344,585	270,652
Revaluation reserve for land, net of tax	4,173	4,134
Foreign currency translation adjustment	(377)	(406)
Accumulated remeasurements of defined benefit plans	(6,055)	(5,146)
Total accumulated other comprehensive income	342,326	269,234
Non-controlling interests	8,690	8,673
Total net assets	606,750	539,318
Total liabilities and net assets	8,488,872	8,409,225

(4) Consolidated Statements of Operations and Comprehensive Income

[Consolidated Statements of Operations]

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Ordinary revenues:		
Premium and other income	462,010	427,620
Investment income	157,274	148,406
[Interest, dividends and other income]	[122,396]	[126,277]
[Gains on money held in trust, net]	[1,895]	[—]
[Gains on trading securities, net]	[8,506]	[1,303]
[Gains on sales of securities]	[14,839]	[20,383]
[Gains on separate accounts, net]	[8,856]	[—]
Other ordinary revenues	8,086	25,846
[Reversal of reserve for outstanding claims]	[1,128]	[1,803]
[Reversal of policy reserve]	[—]	[16,418]
Total ordinary revenues	627,371	601,873
Ordinary expenses:		
Claims and other payments	433,872	417,412
[Claims]	[110,105]	[89,833]
[Annuities]	[126,526]	[140,884]
[Benefits]	[86,638]	[90,869]
[Surrenders]	[89,465]	[76,409]
[Other payments]	[20,807]	[19,127]
Provision of policy reserve and others:	4,420	9
Provision of policy reserve	4,412	—
Provision of interest portion of reserve for dividends to policyholders	8	9
Provision of interest portion of reserve for dividends to policyholders (subsidiary)	0	0
Investment expenses	34,402	36,369
[Interest expenses]	[3,260]	[2,921]
[Losses on money held in trust, net]	[—]	[802]
[Losses on sales of securities]	[2,059]	[7,014]
[Losses on valuation of securities]	[44]	[1,386]
[Losses on derivative instruments, net]	[10,918]	[3,581]
[Foreign exchange losses, net]	[10,321]	[9,107]
[Losses on separate accounts, net]	[—]	[3,420]
Operating expenses	73,743	73,207
Other ordinary expenses	16,146	19,662
Total ordinary expenses	562,585	546,661
Ordinary profits	64,785	55,212
Extraordinary gains:		
Gains on disposal of fixed assets	244	3
Total extraordinary gains	244	3
Extraordinary losses:		
Losses on disposal of fixed assets	163	37
Impairment losses	140	69
Provision of reserve for price fluctuation	2,719	2,856
Losses on advanced depreciation of real estate for tax purpose	3	—
Total extraordinary losses	3,027	2,964
Provision of reserve for dividends to policyholders (subsidiary)	250	232
Surplus before income taxes	61,752	52,018
Income taxes:		
Current	11,114	8,686
Deferred	(247)	(1,055)
Total income taxes	10,867	7,631
Net surplus for the period	50,884	44,386
Net surplus attributable to non-controlling interests	57	17
Net surplus attributable to the parent company	50,826	44,369

(4) Consolidated Statements of Operations and Comprehensive Income (Continued)

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net surplus	50,884	44,386
Other comprehensive income:	111,426	(73,079)
Net unrealized gains (losses) on available-for-sale securities, net of tax	110,154	(73,959)
Foreign currency translation adjustments	46	(29)
Remeasurements of defined benefit plan, net of tax	1,225	909
Comprehensive income:	162,310	(28,692)
Comprehensive income attributable to the parent company	162,271	(28,684)
Comprehensive income attributable to non-controlling interests	38	(8)

Notes to the Consolidated Financial Statements

I. Presentation of the Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Fukoku Mutual Life Insurance Company (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Insurance Business Act of Japan and its related rules and regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Amounts of less than one million yen have been rounded down. As a result, the totals do not add up.

II. Notes to the Consolidated Balance Sheets

1. The amount of securities lent under lending agreements was ¥211,669 million as of December 31, 2018.

2. Changes in reserve for dividends to policyholders for the nine months ended December 31, 2018 were as follows:

	(Millions of yen)
Balance at the beginning of the current period.....	¥ 53,395
Transfer from surplus in the previous fiscal year.....	38,630
Dividend payments to policyholders during the current period.....	(21,714)
Increase in interest.....	9
Balance at the end of the current period.....	<u>¥ 70,321</u>

3. Changes in reserve for dividends to policyholders (Fukokushinrai Life Insurance Co., Ltd.) for the nine months ended December 31, 2018 were as follows:

	(Millions of yen)
Balance at the beginning of the current period.....	¥ 539
Dividend payments to policyholders during the current period.....	(337)
Increase in interest.....	0
Provision of reserve for dividends to policyholders.....	232
Balance at the end of the current period.....	<u>¥ 435</u>

III. Notes to the Consolidated Statements of Operations

1. For the nine months ended December 31, 2018, the total amount of depreciation, including depreciation of real estate for rent, was ¥12,109 million and the amount of amortization of goodwill was ¥28 million.

(5) Status of Insurance Claims Paying Ability of the Company and Insurance Subsidiaries

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Total solvency margin (A)	1,556,422	1,501,586
Foundation funds and surplus	223,166	238,710
Reserve for price fluctuation	105,521	108,377
Contingency reserve	189,211	189,860
Catastrophe loss reserve	—	—
General allowance for possible loan losses	1,502	1,368
(Net unrealized gains (losses) on securities (before tax) and deferred hedge gains (losses) (before tax)) × 90%	429,908	337,510
Net unrealized gains on real estate × 85%	122,692	126,969
Sum of unrecognized actuarial differences and unrecognized prior service cost	(8,410)	(7,148)
Excess amount of policy reserve based on full-time Zillmer method	255,285	261,928
Qualifying subordinated debt	191,935	191,935
The amount of "excess amount of policy reserve based on full-time Zillmer method" and "qualifying subordinated debt" excluded from the calculation of solvency margin	—	—
Deductible items	—	—
Others	45,609	52,074
Total amount of risk $\sqrt{(\sqrt{R_1^2 + R_5^2 + R_8 + R_9})^2 + (R_2 + R_3 + R_7)^2 + R_4 + R_6}$ (B)	276,097	264,026
Insurance risk R_1	23,756	23,589
General insurance risk R_5	—	—
Catastrophe risk R_6	—	—
3rd sector insurance risk R_8	9,798	9,886
Small amount and short-term insurance risk R_9	—	—
Assumed investment yield risk R_2	32,542	31,969
Minimum guarantee risk R_7	—	—
Investment risk R_3	235,431	224,087
Business risk R_4	6,030	5,790
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,127.4%	1,137.4%

Notes: 1. Above figures are calculated based on the provisions of Articles 86-2 and 88 of the Enforcement Regulation of the Insurance Business Act and the Financial Services Agency Notification No. 23, 2011.

2. "Minimum guarantee risk" is calculated by standard method.